MEDIATION OF GOVERNMENT POLICIES ON COMPENSATION STRATEGY AND EMPLOYEE PERFORMANCE: A STRUCTURAL EQUATION MODEL APPROACH

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Abstract

The underlying axiom that organizations that fail to develop appropriate compensation packages for their employees tend to record high rates of turnover of staff has spurred research in the field of management. This study, therefore, examines the effect of compensation strategies on employee performance as well as the mediating role of government policies. It adopts a descriptive survey design involving the distribution of 304 research questionnaires to the staff of selected tertiary institutions in the States of Delta and Rivers in Nigeria. Quantitative data were collected using a five-point Likert scale to measure relevant variables used for the analysis. A structural equation modeling statistical analysis technique was used to analyze the data generated. The results reveal a positive and statistically significant relationship between employee performance and proxies of the compensation strategy, namely salary, flexible working hours, and retirement benefits. Contrary to expectations, a negative, statistically significant relationship was found between employee performance and promotion. The relationship of employee performance with government policies is statistically insignificant at the 5% confidence level. It is recommended that institutional administrators *develop promotional criteria that will impact academic staff performance while upholding policies regarding salaries, flexible working hours, and retirement benefits.*

Keywords: Mediation, Compensation Strategy, Employee Performance, and Structural Equation Model.

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1. INTRODUCTION

Most employees have narrow views of compensation benefits, focusing only on salary instead of the complete package, which comprises monetary and non-monetary benefits. This might be the reason why during negotiations, many trade unions are only interested in increases in salary rather than the inclusion of sensitive issues like promotion criteria, recognition, and other benefits. They have failed to realize that promotion will attract more non-financial benefits and directly increase the worker's salary. For instance, in Nigeria, recent recommendations by the Nigerian Labour Congress (NLC) to pay a minimum wage of ₦30,000 without considering other non-monetary benefits such as health facilities and accommodation attests to the wrong approach carried out by trade unions. Employers might not be able to retain their staff with consideration only to the payment of high salaries as urged by trade unions, without incorporating other compensation benefits.

Bana and Kessy (2017) noted that employees are motivated by both intrinsic and extrinsic rewards. As requested by the unions, increasing salaries did not in any way reduce the turnover of staff. The willingness of an employee to stay in a job depends on what the organization can offer in terms of the total package or compensation (Armstrong, 2003). It is necessary, therefore, that the management of each organization develop appropriate compensation strategies to address the needs of their employees. If such needs are met, employees will become happier and, in return, be more productive. This assertion supports Peter Drucker's (1956) concept that happy workers are productive workers. Thus, when employees are not satisfied with the condition of services provided by their employers, it leads to a high turnover of staff. This worsens the situation for management, especially if they have spent considerable resources on staff training and development.

Previous studies have shown that the determinants of compensation packages, organizational salary structure, promotional opportunities, and work environment influence employees' voluntary turnover more than other variables (Mitchell, Holtom & Lee, 1993; Grabara, 2013; Kimani, Thomas & Arasa, 2017). Moreover, in these studies, employers failed to establish what motivates their workers and did not use a holistic approach.

As noted by Bana and Kessy (2017), some employees might be highly motivated by intrinsic rewards (such as recognition and praise) while others are more motivated by extrinsic rewards (like remuneration and promotion). This study established from previous empirical studies that even though most organizations had adopted compensation strategies, there were still many records of high turnover in higher institutions. Raza and Hanif (2013) noted that more than seventy percent of employees in Pakistan changed their jobs frequently

due to the low incomes paid by their employers. In Nigeria, Akekere and Yousua (2013) found out that increases in staff wages led to a decrease in staff turnover by 29.01 %. This implies that a decrease in staff wages could cause a 70.99% increase in staff turnover. In the same vein, Abdulraheem (2014) offers the opinion that there is a high turnover of academic staff at Kwara State University because lecturers prefer to move to other institutions that can provide better conditions of service. Therefore, this study was carried out to assess what compensation strategy variables impact the reduction of turnover of academic staff in tertiary institutions in Nigeria. Specifically, the study examines salary, flexible working hours, retirement benefits, and promotions on employee performance. It differs from existing studies by introducing the mediating variable of government policies. Hayes (2013) stated that mediation analysis is a statistical method that helps to establish how the independent variables transmit their effect on the dependent variables.

2. REVIEW OF LITERATURE

2.1 Conceptual Framework

The conceptual framework of this study shows the relationship between the dependent variable (employee performance) and the explanatory variables, which are measurements of the compensation strategy, including the mediating variable of government policies.

2.2 Theoretical Framework

This study adopts the equity theory of motivation, which was credited to the works of Adams Smith in 1965. He stated that the equity theory is based on the exchange theory, which focuses on people's

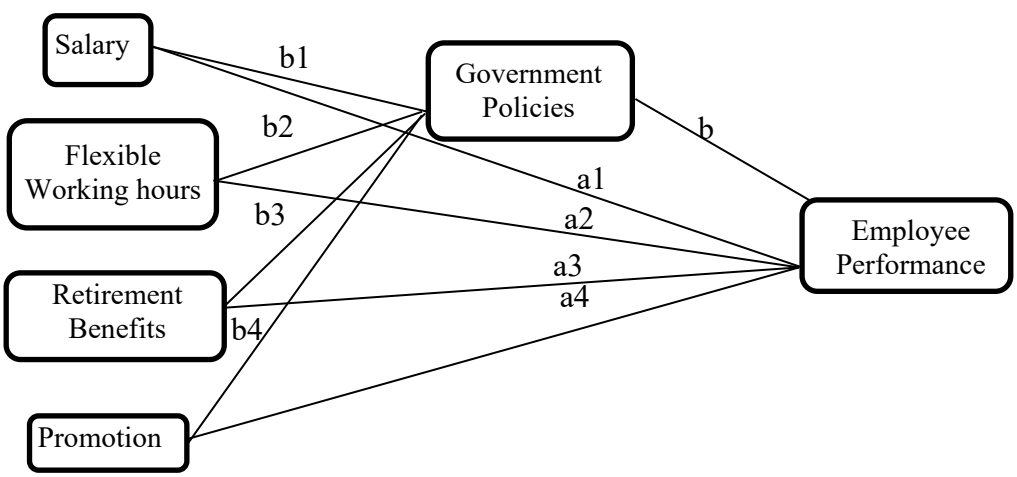

Fig 1: Conceptual model of the study

feelings and how fairly they have been treated compared to the treatment received by others. Employees expect certain compensation in exchange for the efforts they put into the organization when performing their primary assignments. For instance, a staff member who had contributed positively to the growth of an organization should expect promotion as compensation. Thus, Al-Zawahreh and Al-Madi (2012) asserted that the equity theory is based on equitability and inequitability.

In a nutshell, the theory emphasizes a need to compare employees' inputs and their outcomes in terms of benefit or reward to establish whether there is equity. This theory concludes that "when the ratio of a person's total outcomes to total inputs equals the perceived ratio of other people's total outcomes, to total inputs, there is equity and vice-versa". An employee will be de-motivated if an unfair environment is perceived, especially when they compare the nature of their work with contemporaries that receive more rewards and contribute less to the organization.

2.3 Review of Related Literature

Compensation can be described as the total benefits in both monetary and non-monetary forms which employees receive, including salaries, promotions, and bonuses, aimed at increasing their performance (Holt, 1993). Huselid and Becker (2000) assert that compensation is a unique area of human resource management, which can have a very high impact on job performance if properly applied. Previous studies have established that a significant relationship exists between compensation and employee performance (Kimani et al., 2017; Shin-Rong & Chin-Wei,2012; Mayson & Barret,2005). Grabara (2013) asserts that proper management of good compensation has a positive impact on employee performance. This implies that poor compensation management will de-motivate employees and have direct adverse effects on performance. However, none of these studies specified a holistic approach in the compensation strategy for motivating employees. In this regard, the ability of managers to understand what motivates the employees of their organization will avert staff turnover (Azasu, 2017).

Government policies can decrease or increase an organization's profits. In computing a statement of the financial position of a company, the net profit is arrived at after deducting the company's income tax. Therefore, a reduction or exemption on tax would increase the cash flow and profitability of the business, and vice-versa. If the policies favor employers, it can enhance employee compensations and productivity. This study will review the literature to establish the relationship between the dependent variable, explanatory variables, and the mediating role of government policies, as captured in the conceptual framework. Thus, it is expected that government policies mediate salary, flexible working

hours, retirement benefits, and promotions to impact on an employee's performance. The hypothesis to be investigated is: government policies as a mediator variable will have a significant positive impact on compensation strategy and employee performance.

2.3.1 Relationship Between Variables

Salaries and Employee Performance

Babangana and Dungus (2015) found a positive, statistically significant relationship between staff remuneration and employee performance in their study of Ramat Polytechnic Maiduguri, Borno State, Nigeria. Several studies have established that attractive benefits result in greater satisfaction for the employee and tend to increase employee performance (Bretz & Thomas, 2012; DeNisi & Griffin, 2014). In support of the above assertion, Clegg and Birch (2012) stated that employers that "pay peanuts will get monkeys", while those paying reasonable wages will get staff with high productivity due to their appreciation. In the same vein, Abdul, Humeed, Muhammed, Hartiz, Ghazanfer, and Muhammed (2014) established a weak positive relationship between salary and employee performance in the banking sector in Pakistan. In view of the above, this study hypothesizes that:

Ha1: Salaries have a significant positive effect on employee performance.

Hb1: Government policies mediate the significant positive effect of salaries on employee performance.

Flexible Working Hour and Employee Performance

In developed economies, the use of technology has reduced manpower hours and also impacted positively on employee performance. Flexible working hours allow a worker to do their official work and also have adequate time to attend to family issues (such as picking up their children from school). Pruchno, Litchfield, and Fried (2000) established that flexible working hours increase employee productivity and allow staff to create a proper schedule that moves in line with both official and personal responsibilities. Flexible working hours motivate employees to be innovative in achieving organizational targets at stipulated periods.

In the same vein, Golembiewski, Yeager, and Hilles (1975) noted that a relationship exists between time flexibility and employee behavior. They concluded that flexitime is influenced by the nature of the job and remuneration. Worrall and Cooper (1999) found a negative relationship between long working hours and managers' productivity. Based on these findings, it is hypothesized that:

Ha2: Flexible working hours have a significant positive effect on employee performance.

Hb2: Government policies mediate the significant positive effect of flexible working hours and employee performance.

Retirement Benefits and Employee Performance

Most government workers complain when salaries are owed for one or two months. This implies that the salary is not adequate to sustain the staff above one month. This might be one of the major reasons why most organization's staff are involved in additional businesses to cater for the shortfall. After retirement staff may not be strong enough to work for additional remuneration but their retirement entitlements are mostly not paid immediately. In Nigeria, some staff retirement benefits will come after two to five years of retirement. The sensitivity of retirement benefits has made some organizations (public and private) delegate a specific department to handle pension-related matters (Pinquart & Schindler, 2007). However, there are many cases of mismanagement of pension funds which has led many countries to regulate the pension fund contributions. In Nigeria, such problems also led to the Pension Reform Act of 2004, which was later amended (Agba & Nwosu, 2011).

The Pension Reform Act was designed for both employees and employers to contribute towards the retirement benefits of the staff, but there have been cases of mistrust regarding the fund managers and the trustees of pension funds in Nigeria (Chris & Attamah, 2015). Despite the inadequacies of pension funds, contributing to retirement is more advantageous to the employee. A retirement scheme can be linked to Abraham Maslow's hierarchy of safety and security needs as it provides assurance that the employee will remain secure even after retirement (Dugguh & Iliya, 2018). This will therefore reduce employee turnover and have a positive impact on employee performance. Based on the above, the following hypotheses are proposed:

Ha3: Retirement benefit has a significant positive effect on employee performance.

Hb3: Government policies mediate the significant positive effect of retirement benefits on employee performance.

Promotion and Employee Performance

Studies have shown that promotion has a vital motivating effect on employee performance. From the perspective of human resource management (HRM), promotion systems affect almost all aspects of organizational lives (Fuller & Huber, 1998; Baker & Holmstrom, 1995; Baron & Loewenstein, 1985). Previous empirical studies have shown that about seventy-five percent of vacancies are filled internally by the promotion of staff within the organization (Wholey, 1985; Baker, Biggs & Holmstrom 1994; Lazeer, 1992; Chan 1996). Thus, employees will be dissatisfied and leave an organization when they are not given opportunities to earn a promotion or when the organization presents unachievable promotion criteria (Shields & Ward, 2001). Furthermore, promotion encourages the employee to be more productive. Contrarily, the

study of Ali and Ahmed (2017) found that promotion was not significantly linked to job satisfaction of employees. Based on the above, the following hypotheses were formulated:

Ha4: Promotion has a significant positive impact on employee performance.

Hb4: Government policies mediate the significant positive impact of promotion on employee performance.

Government Policies and Employee Performance

Government policies regarding employment laws are thought to mediate the effects between employee performance and compensation. For instance, the upward trend in the minimum wage set by the government requires companies to comply and adjust their remuneration according to government directives. However, Gunawan and Amalia (2015) found that changes in wage structure do not impact employee performance. This is because government policies impose taxes on firms which are in turn passed on to consumers, paid by employees, or borne by the shareholders (Deslauriers, Dostie, Gagne & Pare, 2018). They determined that taxes paid by employees through Pay As You Earn (PAYE) are passed on by the firm, and have a negative impact on the quality of the workforce, which will directly affect employee performance.

In the same vein, Hamermesh (1979) used worker-level data focusing on male adults from a Panel Study of Income Dynamics (PSID) in the United States of America, finding that a small increase in payroll tax will automatically be shifted to the labor force, directly affecting employee performance. In their study on the impacts of a regional payroll tax decrease in Sweden Korkeameki and Uusitalo (2008) found that reduction in taxes increased the salaries of the workers, which impacted positively on employee performance.

Ha5: Government policies have a significant positive impact on employee performance.

3. METHODOLOGY

A descriptive survey was adopted in the study. This design is appropriate for this study as it can capture all the relevant variables required by the study (Milgo, Namusonge, Kaneli & Makokha, 2014), testing and describing the associations between them. The research instrument used in this study was adopted from the questionnaire used by Kamau (2013) and Patrick (2014). This study uses a quantitative research method as it involves collecting data using questions with a 5-point rating scale, making use of a Likert scale to measure the entire variables captured in the hypotheses (Kothari & Garg, 2019; Dankaew & Silpcharu, 2020). A total of 304 questionnaires were distributed, of which 297 were retrieved, and 290 were found to be suitable for the analysis. The Structural Equation Model (SEM) was used to analyze the data in line with previous studies where moderating or mediating

Breakdown of the Population according to Institutions

Name	Number	Questionnaires Distributed
Rivers State University, Port-Harcourt	621	150
Delta State University, Abraka	634	154
Total	**1255**	**304**

variables were used (Civelek, 2018; Tarurhor, 2017; Tarurhor, 2020).

A Cronbach's Alpha reliability test of the research instrument generated an overall value of 0.7785, which is above the rule of thumb cut-off value of 0.70 indicating acceptable reliability (George & Mallery, 2003). The sample size of 304 was derived from the population of 1255 using Slovin's Sampling method as demonstrated below:

$n = N/(1+Ne^2)$

where n =Sample size
N = Population
e = Margin of error (5%)
$n = 1255\{1 + 1255(0.05^2)\}$
n = 1255/ 4.135
n = 304.

3.1 Model Specifications

A structural equation model analysis was formulated to capture the relevant variables used in the study:

$$EMPYPERF = B_0 + B_1SAL + B_2FLEXWKHRS + B_3RETIRBEN + B_4PRO + \varepsilon t \ldots.(1)$$

$$EMPYPERT = B_0 + B_1SAL + B_2FLEXWKHRS + B_3RETIRBEN + B_4PRO + B_5GOVTPOL + \varepsilon t \ldots. (2)$$

where
EMPYPERF = Employee Performance
SAL = Salary
FLEXWKHRS = Flexible working hours
RETIRBEN = Retirement benefits
PRO = Promotion
GOVTPOL = Government Policies

A programmed computer was employed in the statistical analysis of the data. This included descriptive statistics, correlation matrix, and structural equation model.

4. RESULTS AND DISCUSSION

This study adopted a procedural approach for quantitative data analysis, starting with descriptive and inferential statistics. Table 1 reports the results of the descriptive statistical analyses, showing a summary of the variables used in the study. Salary shows the highest mean of 3.22069, indicating that this variable can predict employee performance more than other explanatory variables and the mediating variable used in this study. The variable with the lowest influence on employee performance in this study is government policies

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
emplyper	290	2.767241	.7003646	1.625	3.75
Sal	290	3.22069	.9919675	1.5	5
flexwkhs	290	2.662069	1.013546	1.5	4
Retirben	290	3.172414	.5016902	2.2	4.6
Pro	290	2.506897	.5909662	1.67	4
Govtpol	290	2.447126	.6594778	1.67	4.7

Source: Author's Estimate (2020)

Table 2: Correlation Matrix

	emplyper	Sal	flexwkhs	retirben	Pro	Govtpol
emplyper	1.0000					
Sal	0.9069	1.0000				
flexwkhs	0.1651	0.3386	1.0000			
Retirben	0.4480	0.4649	0.6723	1.0000		
Pro	0.2139	0.5188	0.8367	0.5912	1.0000	
Govtpol	0.0700	0.0435	0.1759	0.4544	0.1317	1.0000

Source: Author's Estimate (2020)

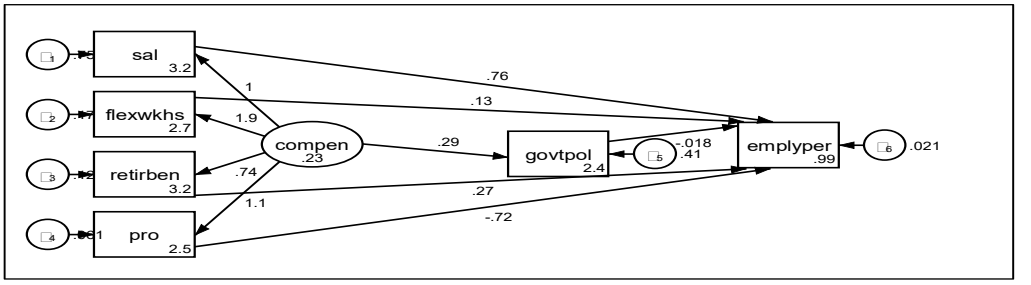

Fig 2 SEM Diagram
Source: Author's Estimate (2020)

(2.44712), as shown in table 1.

The Pearson correlation matrix in Table 2 shows the relationship between the independent variables in this study. There is a weak positive relationship between all of the explanatory variables except for salaries and promotion (0.5188); flexible working hours and retirement benefits (0.6723); flexible working hours and promotion (0.8367); and retirement benefits and promotion (0.5912). None of the relationships between the independent and moderating variables are above the rule of thumb threshold of 0.90, which is used as a benchmark to ascertain variables that would cause multicollinearity problems (Dimitrous & Hall, 2007). Note that

the value of 0.9069 is not relevant when considering multicollinearity problems, as it reports the relationship between employee performance (a dependent variable) and salary (an explanatory variable) rather than between two explanatory variables.

The results shown in Fig 2 indicate a strong positive relationship between employee performance and salary (0.76). This result is consistent with the work of Babagana and Dangus (2015). There is a weak positive relationship between employee performance and flexible working hours (0.13), which differs from the findings of Warrall and Cooper (1999), who reported a negative relationship between these variables and also with a retirement benefit. The positive relationship between retirement benefits and employee performance (0.27) supports the study of Dugguh and Iliya (2018). In the same vein, a strong negative statistically significant relationship exists between employee performance and promotion (0.72), while the relationship between employee performance and government policies shows a very weak negative effect (-0.018).

The results are shown in Table 3 confirm the established relationship between employee performance and compensation strategy. The moderating effect of government policy is also guaranteed, as shown in Fig 2 of the SEM diagram. The value of the beta coefficient for hypothesis a_1 is 0.7558994, which shows that the effectiveness of salary on employee performance is approximately 76 percent. Thus, this finding supports hypothesis a_1 reporting a significant positive relationship between salary and employee performance at a 1 percent level of significance. In the same vein, the relationships for employee performance with flexible working hours and retirement benefits are also significant, supporting

Table 3: SEM Output

Structural equation model Number of obs = 290

Estimation method = ml

Log-likelihood = -1136.8608

	Coef	Std.Err	Z	P>/z/	[95 % Conf.	Interval]
emplyper<-						
Sal	.7558994	.0112139	67.41	0.000	.7339205	.7778783
flexwkhs	.1270999	.0180453	7.04	0.000	.0917318	.162468
Retirben	.2697901	.0283782	9.51	0.000	.2141699	.3254103
Pro	-.7198972	.0298835	-24.09	0.000	-.7784677	-.6613267
Govtpol	-.0177363	.015191	-1.17	0.243	-.04751	.0120374
_cons	.9866004	.0654239	15.08	0.000	.858372	1.114829

LR test of model vs. saturated: chi2(5) = 160.18, Prob > chi2 = 0.0000

Source: Author's Estimate (2020)

Table 4: Effect of Employee performance on Compensation Strategy

Effect	Coefficient	Z	P>/Z/
Indirect	0.3913544	7.52	0.000
Direct	-		
Total	0.3913544	7.52	0.000

Source: Author's Estimate (2020)

hypothesis a_2 and hypothesis a_3, respectively.

However, the study's report did not support hypothesis a_4, as a significant negative relationship was found between promotion and employee performance. This result is justifiable due to the stringent promotion criteria and late implementation of promotions to only a few successful academic staff. Also, the finding on the relationship between government policies and employee performance did not support hypothesis a_5, as a non-significant negative relationship was found. Furthermore, the Chi-Square value recorded was 160.18 with a P-value of 0.0000. This is an indication that the model is significant and suitable for this study.

The total effect of the compensation strategy on employee performance would be 0.3913544 if there was no mediating effect of government policies in the study model. This is significant with a Z-value of 7.52, implying that there is no evidence of a direct effect of government policies on measures of compensation strategy on employee performance, as shown in table 4. However, this does not invalidate the results in Fig 2 and Table 3, which established that a relationship exists between compensation strategies and employee performance. This finding supports the work of Baron and Kenny (1986) and Kumar and Upadhaya (2017). Their studies used a sample size of less than 500 and thus couldn't capture the impact of both direct and indirect effects of a moderating variable on the relationship between the dependent and independent variable.

5. CONCLUSION

The results of this study have contributed to existing empirical studies regarding how employers can improve employee performance, especially regarding higher education institutions in Nigeria. These results established a positive, statistically significant relationship between employee performance and three measurements of compensation strategies, namely salary, flexible working hours, and retirement benefits. A negative relationship was found between employee performance and promotion. Staff salary is the major compensation strategy that impacts academic staff performance. However, its relationship with the mediating variable of government policies showed a negative and statistically

insignificant relationship.

The study recommends that institutional administrators should establish promotion criteria that will impact academic staff performance while upholding policies regarding salary, flexible working hours, and retirement benefits. Besides, other non-monetary benefits such as health care facilities, accommodation, and internet facilities, should be provided to enhance productivity, indirectly leading to improvements in employee performance.

6. IMPLICATION

The structural equation model analysis results confirmed the theoretical background that compensation strategies could enhance employee performance. Therefore, the Governing Council of tertiary institutions should focus on maintaining salaries, flexible working hours, and retirement benefits to sustain its impact on academic staff performance. Furthermore, emphasis should also be put on providing infrastructural facilities to enable staff to perform their duties effectively.

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